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PP RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEHSB #0822/01 2551641
ZNR UUUUU ZZH
P 111641Z SEP 08
FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC PRIORITY 3425
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 2069
RUEHAR/AMEMBASSY ACCRA 2282
RUEHDS/AMEMBASSY ADDIS ABABA 2402
RUEHBY/AMEMBASSY CANBERRA 1679
RUEHDK/AMEMBASSY DAKAR 2035
RUEHKM/AMEMBASSY KAMPALA 2456
RUEHNR/AMEMBASSY NAIROBI 4888
RUEAIIA/CIA WASHDC
RUEHGV/USMISSION GENEVA 1551
RHEHAAA/NSC WASHDC
RHMFISS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RUZEHAA/CDR USEUCOM INTEL VAIHINGEN GE

UNCLAS SECTION 01 OF 03 HARARE 000822

SENSITIVE
SIPDIS

AF/S FOR G. GARLAND
AF/EPS FOR ANN BREITER
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
TREASURY FOR J. RALYEA AND T.RAND
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ASEC](#) [ZI](#)
SUBJECT: GONO ALLOWS SOME FORMAL DOLLARIZATION

Summary

¶1. (SBU) On September 10, Reserve Bank of Zimbabwe (RBZ) Governor Gideon Gono announced the licensing of foreign exchange wholesale and retail shops plus service stations, allegedly to increase the availability of basic goods and improve manufacturers' capacity utilization. He also reduced the foreign exchange surrender requirement on exporters, announced new support for the gold sector, raised the seed maize price for growers, and announced the issuance of a US\$-denominated government bond. The formal retail sector welcomed the opportunity to sell goods for hard currency, but found the buy-in price high. We question the timing of the announcement and don't expect the initiative to put Zimbabwe on a sustainable recovery path. End Summary.

Gono Launches Forex Wholesale and Retail Outlets

¶2. (U) On September 10, Reserve Bank of Zimbabwe (RBZ) Governor Gideon Gono announced the launch, initially for 18 months, of foreign exchange licensed wholesale warehouses and retail shops (FOLIWARS), foreign exchange licensed oil companies (FELOC), and petrol and diesel outlets (FELOPAD). He expected the initiative to improve domestic manufacturing capacity utilization and increase the availability of basic goods. He stated that the initiative neither introduced nor condoned dollarization. The terms for wholesale and retail outlets are:

--security deposit for Zimbabweans of US\$20,000 payable to

the RBZ for a single-floor retail outlet*US\$50,000 for foreigners;
--security deposit for Zimbabweans of US\$100,000 payable to the RBZ for a single-floor wholesale warehouse*US\$250,000 for foreigners;
--allocation of 1000 retail licenses and 250 wholesale licenses;
--excluded from sale in foreign exchange: mealie meal, milk, bread, cooking oil, sugar, salt, medicines, locally manufactured sanitary pads, locally produced margarine, soap, toothpaste; school uniforms and exercise books;
--surrender of 15 percent of gross foreign exchange sales to the RBZ on a weekly basis;
--profit markup capped at 30 percent of total verifiable cost.
--permission for local producers to sell their products (except excluded items) to forex stores;
--license applications accepted up to September 22 and license issuance up to September 26.

The terms for oil companies and petrol and diesel outlets are:

--exclusion of paraffin and National Oil Company of Zimbabwe (NOCZIM) fuel from sale in foreign exchange;
--security deposit of US\$100,000 for oil companies;
--security deposit of US\$5,000 for each service station;
--daily deposit of all fuel sale proceeds in a special revolving Foreign Currency Account;
--surrender of 15 percent of gross foreign exchange sales to the RBZ on a weekly basis.

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And A Lower Forex Surrender Requirement on Exporters...

13. (U) Gono also announced:

--the reduction in exporters' foreign exchange surrender requirement from 45 percent to 25 percent;
--a delivery bonus of 150 percent in local currency to all producers of gold, on top of payment at the interbank exchange rate, with effect from September 1, 2008;
--an increase in the seed maize price from Z\$13,500 to Z\$20,000/MT (roughly US\$40/MT on the street), back-dated for all 2008 deliveries;
--introduction of a US dollar-denominated bond to raise money for importation of strategic commodities, including fuel, maize and wheat, fertilizer, agrochemicals, farm equipment, medicines, as well as inputs for mining, manufacturing, and infrastructure development.

And a US Dollar-Denominated Bond

14. (U) The US dollar denominated Strategic Commodities Imports Bond (SCIB) will be issued on the following terms:

--180 day tenor;
--15 percent effective return in US dollar terms, with interest and capital paid on maturity;
--minimum subscription US\$100,000;
--repayment alternatives: foreign exchange; shareholding in companies in which the RBZ has shares; certificates to purchase tobacco and cotton in local currency and export it with 100 percent foreign exchange retention; equity conversion in joint venture projects in mining; coal fines, iron fines, raw coal, raw chrome; Homelink houses and housing development land.

Private Sector Sees Some Benefits

15. (SBU) Albert Katsande, Chief Operating Officer of

Zimbabwe's largest supermarket chain OK Zimbabwe Ltd, told econoff on September 11 that the policy shift would help his and other large companies survive. Until now, they had faced arrest if they played in the informal market. The new policy formalized the dollarization of the economy that was already underway, in his view. He also felt it effectively killed the National Income and Pricing Commission.

¶6. (SBU) OK Zimbabwe has 53 outlets; Katsande said it would probably select about 30 of them to be foreign exchange stores. It could not afford to pay the security deposit of US\$20,000 per outlet up front, and would try to negotiate payment with profits from sales. Katsande expected the RBZ to selectively grant security deposit dispensations, which he suggested opened up a new source of patronage. It would squeeze out some informally operating forex shops on the one hand, and, on the other hand, provide people with US\$20,000 but no retail experience a front "to do deals."

¶7. (SBU) On the markup, Katsande said 30 percent was

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reasonable if the company were allowed to include all its costs, including rent, labor and financing. The NIPC had allowed a 20 percent markup. He did point out, however, that the 15 percent foreign exchange surrender requirement cut into the profit margin, but added that the vagueness of how the markup would be determined could work in the retail sector's favor by leaving room for interpretation. On the US dollar denominated bond, he suggested that the RBZ had probably assumed "something positive" coming out of the present power-sharing negotiations, which would have lowered sovereign risk and made the terms more attractive. Katsande felt that the initiative could be an intermediate step toward formal dollarization of the economy, but for now there was not enough foreign exchange in circulation to cover anything more than day-to-day transactions.

¶8. (U) Post was unable to reach more executives in the formal retail economy or in the fuel business for their views, but will report further septel.

Comment

¶9. (SBU) Introducing a major policy shift that fails to address the economy's fundamental distortions during the most delicate phase of power-sharing negotiations indicates bad faith on the government's part. Gono should be acting like a lame duck governor, as his ouster and the implementation of far-reaching reforms will certainly be a top priority of the MDC once it has a voice in government. The uptake on the license offer will put some foreign exchange in the government's coffers, the outlets could lower the transaction cost of shopping for those with access to forex, and more people will grow accustomed to transacting in foreign exchange, but the initiative will not set Zimbabwe on a sustainable recovery path.

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